



“VST Tillers Limited Q1 FY 2017 Earnings Conference Call”

August 01, 2016



ANALYST:

**MR. ANNAMALAI JAYARAJ – DIRECTOR &
DEPUTY HEAD - BATLIVALA & KARANI
SECURITIES INDIA PRIVATE LIMITED**

MANAGEMENT:

**MR. K.U. SUBBAIAH – CHIEF EXECUTIVE
OFFICER - VST TILLERS TRACTORS LIMITED
MR. R. THIYAGARAJAN - CHIEF FINANCIAL
OFFICER - VST TILLERS TRACTORS LIMITED**



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Moderator: Ladies and gentlemen, good day and welcome to the VST Tillers Limited Q1 FY17 Earnings Conference Call, hosted by Batliwala and Karani Securities India Private Limited. As a reminder all participants' line will be in the listen-only mode and there will be an opportunity for you to ask questions after the presentation concludes. Should you need assistance during the conference call, please signal an operator by pressing "*" then "0" on your touchtone telephone. I now hand the conference over to Mr. Annamalai Jayaraj from Batliwala & Karani Securities India Private Limited. Thank you and over to you Sir!

Annamalai Jayaraj: Thank you. Good afternoon everyone. On behalf of Batliwala & Karani Securities welcome to the 1Q FY 2017 Post Results Conference Call of VST Tillers Tractors Limited. I also take this opportunity to welcome the senior management team from VST Tillers Tractors Limited. We have with us today Mr. K.U. Subbaiah – Chief Executive Officer and Mr. R. Thiagarajan – Chief Financial Officer. I would now invite VST Tillers Limited Management for the opening remarks to be followed by the question and answer session. Over to you Sir!

K.U. Subbaiah: Thank you Mr. Jayaraj. I will give you an overview of the industry followed by our company performance. As an industry update, I have to provide a few key messages. There is more fragmentation in the land holding and hence the government is driving towards implementing more customer hiring centers. Last month during the Mechanization conference in Delhi we were told that government intends to implement about 200,000 customer hiring centers in the country in the coming years. This means there is a lot of focus from the Central Government. As of now some of the state governments are also embarking on programs for developing the custom hiring centers.

There is higher allocation for power tiller in states of Bihar and Gujarat, which is expected to help us in the coming months. A few State Governments have started pursuing the direct benefit transfer, which will ease out the process hurdles, lead-time for getting the subsidy payment. Good monsoons so far, but if you really look at it in a micro level in some regions either the rainfall got delayed or the rainfall is scanty. That is why if you see our results it is a mixed bag. As a part of the Company wide initiatives, we are actively expanding the network in areas of large potential which is an ongoing thing, implementing good practices, providing various finance options for both tillers and tractors. We will be able to see substantial improvements in the working capital front in the coming days.

I should also mention at this point that starting April 1, 2016 all our dealers are either under channel financing or cash and carry or against secured credit.



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Coming to the overall business review of VTTL the overall revenue growth in Q1 was about 7% compared to the same quarter last year and if you see the overall revenue in terms of value it was 178 Crores against a total revenue of 646 Crores in the year 2015-16. Revenue was 167 Crores in the Q1 of 2015-16 while it is 178 Crores Q1 2016-17.

If you look at the split up of the product sales is versus sales and component the product sales contributed to 163 Crores, the spares is 14 Crores and components is about 1 Crore. The domestic sales 177 crores exports is only 1 Crores. So if you really look at the growth in domestic market the growth was about 8%.

Coming tractor business, the overall industry in Q1 registered about 182,000 numbers of sales with the segment share less than 20HP of 4%, 21 to 30 HP 5%, 31 to 40 HP 32%, 41 to 50 HP 47% and greater than 50 HP 12%. As most of you know that we have been pioneers in the less than 20 HP segment and only this year we entered into 21 to 30 HP segment by offering the 27 HP tractors. We sold totally 2158 tractors in Q1 of which 1807 of sub-20 HP tractors and 351 numbers of 21-30 HP tractors. In 21- 30 HP segment we gained a market share and market share today is about 3.9% whereas our segment share in less than 20 HP has dropped to 25%.

Predominantly, if you look at sub-20 HP segment sales other than M&M nobody else has gained the market share. M&M has gain the market share as they had a 900 machines Maharashtra Government one time order at 90% subsidy scheme which enabled them to gain significant market share in the 0 to 20 HP segment. As far as VST is concerned delayed monsoon in core markets like Gujarat and Maharashtra impacted our sales in Q1.

As far as financial performance is concerned the power tiller contribution improved to 42 Crores from 37 Crores last year and in case of tractor the contribution improved from 20 crores to 21 crores. The operating profit reduced from 21 crores to 16 crores in case of power tiller and from 9 crores to 7 crores in case of tractor.

When you look at the reason for reduction in the PBT you will notice there are two significant line items which contributed towards the reduction. One is the employee cost and the other one is the overheads. The employee cost was one time exception. This was due to the gratuity liability funding which contributed to about 1.72% because of inclusion of our employees of Mysore and Hosur units under the LIC gratuity fund scheme. The wage settlement for our associates in the Bangalore plant was due on December 1, 2015. The wage settlement was signed in April 2016. The arrears for the four months was paid in this quarter. The wage settlements are once in three years.



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Bonus and incentives of the year 2015-16 contributed to 0.89% which earlier we used to pay in the II quarter of every year.

Cost of the increase in headcount compared to the Q1 of last year contributed to about 0.56%. However this is as per the plan to meet the long-term growth. The increase in headcount is mainly in the sales and marketing and engineering. We also made the salary revisions for our staff which contributed to 0.36. In the previous years these increments used to happen only in Q2. However in order to streamline all the policies & processes and to ensure that the increases happen seamlessly every year on April 1, the earlier practice was changed.

All the above contributed to an increase 3.24% in employee cost compared to our normal headcount cost of about 7%. In case of overheads the sales expenses contributed to the increases. The dealer discount of 1.38% is mainly the discount that is given to the dealers going for either channel financing or cash and carry or to secure credit. In order to encourage and motivate them to move into this scheme we have offered them cash discount which otherwise would have been the notional interest loss due to delayed subsidy payments as well as delayed payments on regular supplies.

Earlier for free service we used to make an upfront payment to all our dealers to service our customers and this used to be offset from the top-line. However we found that this exploited without rendering the service. To make the service mandatory and effective we have started issuing the service coupons to the dealers and the service coupons can be encashed only after the servicing is done by the dealers. Issue of service coupons impacted about 0.95%.

There are some annual target and infrastructure discounts which contributes about 0.52%, which is a provision which is made in the P&L which is a part of the Dealer improvement program "VIJAYPATH", there are product cash discounts varying from state-to-states which has given in order to increase the sales at appropriate time, which contribute to about 0.36% and product promotion and publicity which we have increased to promote Tractors to bring improved visibility of tractors and crop solutions.

Some of the overheads will continue to be recurring expenses month-after-month, and if we compare with Q1 of last year the increase will be about 2% which is a planned expense for the year 2016-17.



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If you look at the financial ratio the EBITDA margin is about 15.2% but if I remove the onetime exceptions of the employee cost the EBTIDA margin will be about 18% and the PBT margins will be about 16.2% without exceptions and the PAT margin will be about 12.1% without exceptions. The earnings per share without exceptions will be about Rs.99.92 and the days of inventory outstanding is about 44 days which is better than 2015-2016 Q1 and the days of sales outstanding is about 59 days which is much better than what it was as on March 31, 2016 which was 70 days. The improvement in DOS is due to shift to channel financing or cash and carry. This has been brief summary of our performance in Q1 and in the second quarter I would say that we would be able to sell around 8000 Tillers and about 2500 Tractors and with that we should be able to fall in track to our budgeted numbers for H1.

With this I will let the lines open for asking questions.

Moderator: Thank you. We will now begin with the question and answer session. We take the first question from the line of Mukesh Saraf from Spark Capital. Please go ahead.

Mukesh Saraf: Thank you for the opportunity. Sir regarding the discount that we are giving to dealers now for them to pay up quickly to VST which you said accounted for 1.38% of revenues how much would that translate to per tiller?

R. Thiagarajan: The additional discount what we are offering is around Rs.6000 to Rs.7000. This discount is to bring credit discipline, pending direct benefit transfer (DBT) scheme from 1st April, 2017. Some of the states are progressively taking up to implement the DBT scheme during this year. We used to fund the dealers till the subsidy amounts are realized from the state Government. We have changed our credit policy from 1st April, 2016 and mandating the dealers to pay full supply value within the credit period and make their own funding arrangement for their subsidy outstanding. To encourage this we are allowing this credit which in a way a kind of cash discount.

Mukesh Saraf: So you mentioned that the DSO now stands at around 159 days what was the comparable figure for the first quarter for last year?

R. Thiagarajan: It is around 70 days.

Mukesh Saraf: Sir if I look at our interest cost there is a much of change in interest expense that it stands at around 70 odd lakhs which is...?



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- R. Thiagarajan:** The interest out go is not for borrowings since we have no borrowings. The interest paid is on the security deposits of dealers.
- Mukesh Saraf:** Does the fact that this time around because of this policy our cash flow would have improved so is that tend to see improvement in the other income now to around state value...?
- R. Thiagarajan:** Yes our cash flow has been improved. However the increased in other income is not entirely on account of better cash flow but includes an exceptional income of capital gain arising out of the acquisition made by the KIADB in our Mahadevapura Property.
- Mukesh Saraf:** Thank you.
- Moderator:** Thank you. We take the next question from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.
- Srinath Krishnan:** Sir in the previous conference call you mentioned that you would be happy to maintain the market share in tillers considering the competitive intensity, I wanted to understand the changes in increase the structure are these in response to the changing dynamics in the industry Sir in terms of competitive pressures?
- K.U. Subbaiah:** I was not clear about your question. Are you say asking why our market share has fallen.
- Srinath Krishnan:** No in the previous conference call you mentioned that you would be happy to maintain the market shares in tillers considering the competitive intensity.
- K.U. Subbaiah:** Yes.
- Srinath Krishnan:** So, wanted to understand these changes in incentive structures and discounts are they response to market pressures or why have they been made.
- K.U. Subbaiah:** No. As Mr. Thiagarajan said we want to bring in financial discipline and our board also was always continuously telling us that there can be some liability arising due nonpayment's by the dealers. In some states what happens the subsidy payment directly go to the farmer and then the farmers if they do not pay to the dealer becomes a bad debt and then dealers can lift their hands up and say the farmers have not paid us so we are unable to pay you. Moreover it used to take lot of our time and effort to go behind farmers or dealers to get the payments. Ultimately the money belongs to VST neither dealer or farmer are



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affected. So we wanted bring more efficiency in reducing the outstanding, overdue and cash flow and have almost zero risk of bad debts on our balance sheet and these are the fundamental reasons why we went in for this scheme. Now that we have now made it a mandate that they have to go for channel financing and or cash and carry or secured credit to a certain extent probably there may have been some impact on the sale numbers and hence the market share.

Srinath Krishnan: You mentioned that you are optimistic on the second quarter and looking forward to 2500 tractor sales so where this arise from Sir because first quarter has been pretty weak in terms of tractor sales and second question on tractor launch pipeline that you have for the next six months?

K.U. Subbaiah: No. First quarter as I said there are two things. One mainly it is delayed monsoon arrival in core regions. Gujarat the monsoon arrived late so in Maharashtra. This is the fundamental reason why we could not achieve what we planned in Q1 and if you see our sales numbers was lower than Q1 of last year. In second quarter what we see is there is good momentum happening in Andhra Pradesh where lot of new schemes have been launched and so also in Karnataka there is the movement and now in Maharashtra it has started moving because rainfall has been good and now we see that the tractors or progressing so I would say it is optimistic in Q2. But you never know what happens. If you see today in the south especially in the catchment areas of south especially in Karnataka the rainfall has been very, very weak. But it is raining in other places so you never know how this rainfall is going to behave. However we are very optimistic that we should at least sell about 2500 numbers if not less, and as on date I still feel that it is a good number which we should achieve.

Srinath Krishnan: In terms of product pipeline and performance of recently launched tractor Sir?

K.U. Subbaiah: 27 HP initially the catch-up was good but there has been some feedback coming from the customers asking for improvement. For example in Maharashtra the customers requested side shift and some more modifications which we have now improved and given the samples to the market. I think in a couple of days after obtaining the feedback we should be able to supply in bulk numbers. We are anticipating to supply about 150 nos this month.

Srinath Krishnan: And future launches Sir.

K.U. Subbaiah: We are working on that and as and when we have an update, which we can share with you all..



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- Srinath Krishnan:** Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of Arjun Khanna from Kotak Mutual Fund. Please go ahead.
- Arjun Khanna:** Given that last year you have close to 47, 48 Cores in spares just give this why was these quarters are less.
- K.U. Subbaiah:** The spare part sale in this quarter was 14 Crores not 4 Crores as against 12 Crores of Q1 last year so there has been an increase in spare parts sales.
- Arjun Khanna:** Secondly Sir I just wanted to understand we talked about the custom hiring centers what were the sales for this quarter two customer hiring centers?
- Thiyagarajan:** No custom hiring center is not into our account we do not consolidate in our books. It is operated through the franchisee who are our dealers are they are the operators.
- Arjun Khanna:** No, we did not sell them any tillers or tractors.
- Thiyagarajan:** It is our sale includes whatever the units of tillers and tractors sold to them also.
- Arjun Khanna:** I am just wondering do we breakout the data?
- Thiyagarajan:** No it is part of that, any other sale to the dealer like any other of the customer is close to them.
- Arjun Khanna:** So we do not have a differential pricing in customer hiring centers?
- Thiyagarajan:** No our supplies to the dealers it is at the same price and also we are willing to the CHSC or to any other partners also it is a government approved with respect state price. There cannot be any differential pricing between supply to the CHSC or to the farmer. It is the same price what we call the maximum retail price MRP of the product. It is fixed by the government on yearly basis.
- Arjun Khanna:** Sir I just had one more question in terms of new products we were looking at power weeders or could you give us a sales numbers for rice transplanters?
- K.U. Subbaiah:** Rice transplanter we sold 170 units this quarter as against 113 last year.



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- Arjun Khanna:** And in terms of new product introductions like power weeders etc?
- K.U. Subbaiah:** I would say work in progress. We have not launched any product as of now in the power weeder but we are working on it.
- Arjun Khanna:** Thank you so much for this.
- Moderator:** Thank you. We take the next question from the line of Dinesh M from Catamaran. Please go ahead.
- Dinesh M:** I have two questions, one is we are predominantly in the 8 HP to 15 HP in the range and there is the other range which is less than 8 HP or less than 5 HP which are mostly called as Power weeder have plans of entering in that segment that is my first question and second is what would be the market size of that particular segment which is less than inductive tillers how many tillers would be generally sold in a year in India these are my two questions?
- K.U. Subbaiah:** Your first question was actually asked by the earlier gentleman but in any case I will let you know that yes we are working to bring a product in that segment but I cannot tell you the timeframe by when we will be launched because we are looking at a good technology a good partner and so on and so forth and I think the volumes of those power weeders per annum is around 20000 or 25000 not more than that.
- Dinesh M:** So basically a smaller market compared?
- K.U. Subbaiah:** Mainly for the horticulture and it is a smaller market but what most of the market analysts or consultants say is it is a growing market it will grow year-after-year and compared to tillers the growth rate the CAGR maybe little bit higher than that.
- Dinesh M:** Because whatever handling was there are only imported Chinese players in that particular market and there was no real local manufacturer and that is why I wanted to ask this.
- K.U. Subbaiah:** Because the volumes were low and the Chinese players were very, very competitive but now when we are looking at that there is a market I think some of the local manufacturers will definitely enter into that market?
- Dinesh M:** Is there any specific CAGR or any target in mind for the market asset do you believe what would be the size of this market say in 2020?



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- K.U. Subbaiah:** That is what in 2020 as far as I know it is about 35,000.
- Dinesh M:** Thank you for taking my question.
- Moderator:** Thank you. We take the next question from the line of Vaibhav Bid from Motilal Oswal Securities. Please go ahead.
- Vaibhav Bid:** Actually I joined the call late. Could you give me the breakup of your revenues in terms of power tillers, tractors and other products?
- K.U. Subbaiah:** Breakup of revenues in terms of numbers power tiller we sold 7300 tillers, tractors we sold 2158, and right transplanters is 170.
- Vaibhav Bid:** Sir in value terms also, basically the breakup and turnover this year?
- K.U. Subbaiah:** Power tiller 96 Crores, tractors 59 Crores, spare parts 14 Crores, RTP 3.3 Crores.
- Vaibhav Bid:** And also the last quarter same year?
- K.U. Subbaiah:** 87 Crores power tillers, same 59 Crores tractors, RTP 2 Crores, 12 Crores spare parts, rest is others.
- Vaibhav Bid:** Thank you Sir.
- Moderator:** Thank you. We take the next question from the line of Biraj Kacharia from Securities Investment. Please go ahead.
- Biraj Kacharia:** Sir just I have couple of questions, first I just wanted to have clarification the kind of tractor volume and tillers which we mentioned right now in Q1 that includes 150 tillers and tractors to customer service center?
- K.U. Subbaiah:** Yes it includes.
- Biraj Kacharia:** So if we exclude of that it means that we have seen a sharp fall in our tractor volume. This is also considering that you have been going on network expansions space in last couple of months so is it possible for you to split what is the kind of growth we have seen in co-markets like Gujarat, Maharashtra and what is the kind of incremental growth we are seeing from new markets?



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- K.U. Subbaiah:** Yes, we will have those details, as I do not think I will be able to give you entire details in this conference call.
- Biraj Kacharia:** Sir if you look if from their perspective couple of 1000 units scale of say plus 1 lakh we have significant number for them but for us even 150 makes some impact on the quarterly numbers, so that is basically I was trying to get at this kind of degrowth we have seen in tractor?
- K.U. Subbaiah:** Tractors there is a degrowth we are not denying that there is a 4% degrowth and even if you take the customer hiring centers the number is not huge. It could be about 50 tractors there so it is not very significant but the degrowth has mainly come because that market segment 0 to 20 HP segment has dropped by -4%..
- Biraj Kacharia:** You gave this guidance of 8000 tillers and 2500 tractors is it going for Q2 for the rest of the year in terms of quarterly volume?
- K.U. Subbaiah:** This is for Q2.
- Biraj Kacharia:** In which market we are seeing that increase you talked about tillers and tractors so if you can give some idea which markets we are seeing that increase incrementally in that?
- K.U. Subbaiah:** You see our major markets are Maharashtra and Gujarat for the tractor so there we will see good momentum in this quarter as well as there are good sale of tractors happening in Andhra Pradesh and Karnataka. That will continue but other than that we have made some inroads into those states where we were either very hardly present or not present at all so there we are getting some small numbers and which will all add to those increase in numbers in the quarter. Similarly in case of tillers, tillers we have been predominant share in Orissa in Andhra Pradesh in Karnataka in Tamil Nadu and in North East. Regions like the North East and Orissa wherein the volumes was low last year this year, the government has announced good numbers in the current year. Hence we see some traction happening in Orissa. And similar to tractors we are also entering into those regions where we were hardly present and even sale of the 100 to 150 tillers should help our volume. So we are spreading across the country and wherever opportunities are there with the channel network expansion we are trying to sell our products.
- Biraj Kacharia:** Just two more questions one is if the change model which we have in the whole credit model which we had to dealers earlier coming move to a new models is it the same terms which we have are we completely to that across the dealerships or we are still in that?



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- K.U. Subbaiah:** We are completely through with all our dealership from April 1st we have not made any sales with extended credit.
- Biraj Kacharia:** You talked about this 2-lakh-customer service opportunity, which the Government of India is looking at can you, elaborate which states are we seeing those tractions?
- K.U. Subbaiah:** Recently there was a seminar on mechanization in New Delhi conducted by the Central Agriculture Ministry wherein Joint secretary mentioned is that CSC is going to gain more and more prominent because they find that the marginal farmers cannot afford even to buy a tiller. In our country 62% of the farmers are marginal farmers if you have to increase the mechanization for this 62% of the farming community the only way out is to offer them cheaper rental mechanization accessories so that they are able to embark on mechanization.
- Biraj Kacharia:** Sir what I wanted to know any there any states like Karnataka are we seeing similar concrete actions by other states in India?
- K.U. Subbaiah:** Karnataka is way ahead of other states, as you know in the last financial year they initiated about 350 customer-hiring centers in which we were awarded 89 customer-hiring centers and the remaining to Mahindra and the John Deere. Now the state Andhra Pradesh is also looking at similar customer hiring centers and seeking opinions from the manufacturers. Madhya Pradesh already has about 2000 customer hiring centers. Now the Government is examining the possibility of implementing customer hiring centers across India because they feel that, that is very, very important for the enhancing mechanization and increase the productivity.
- Biraj Kacharia:** Just one clarification you talked about the sub 8 HP tiller market in the range of 20000 to 25000 it is currently the market size is around 20000, 25000 is it right?
- K.U. Subbaiah:** Yes currently it is not about 20000 to 25000.
- Biraj Kacharia:** So it is roughly around 15% to 20% of the overall tiller market in India.
- K.U. Subbaiah:** No. The Tiller market size is about 60000 tillers now..
- Biraj Kacharia:** So when we talk about industry size it is primarily about 8 HP market?



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- K.U. Subbaiah:** Yes we say 9 to 11 HP and then 12 to 14 HP and then greater than 15 HP these are the three segments we talk about.
- Biraj Kacharia:** Then primarily the non-subsidy driven market is it like of into that?
- K.U. Subbaiah:** It is subsidy driven market..
- Biraj Kacharia:** No the sub-8 HP I meant?
- K.U. Subbaiah:** Sub 8 HP as on date is non-subsidy driven but there is a say our government is saying that they may give up to 20% subsidy for this product.
- Biraj Kacharia:** Two, three calls back Mr. Mahindra guided for our plans to launch power weeder cum tiller somewhere in June, July this year so has there been some delays?
- K.U. Subbaiah:** I would not say delayed we have been talking to various companies for the technology tie-ups. I think during this year we should be able to launch the product.
- Biraj Kacharia:** That is all Sir. Thank you.
- Moderator:** Thank you. We take the next question from the line of Kashyap Jhaveri from Capitalital 72 Advisors. Please go ahead.
- Kashyap Jhaveri:** A question you earlier mentioned that on there was a 1.2% impact on margins to do discount of dealers now this is 1.4% of total sales or on the dealer sales?
- K.U. Subbaiah:** 1.4% is total sales.
- Kashyap Jhaveri:** And you said normalized EBITDA margins are about 18%?
- K.U. Subbaiah:** If I remove these exceptions of headcount cost manpower costs, which are one time then it is about 18%.
- Kashyap Jhaveri:** Advertisement spending ANP as a percentage of sales for this quarter?
- K.U. Subbaiah:** 0.6%.
- Kashyap Jhaveri:** Thank you. That is it from my side.



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- Moderator:** Thank you. We take the next question from the line of Jasdeep Walia from Infina Finance. Please go ahead.
- Jasdeep Walia:** Sir on account of these incentive or the schemes you have floated for dealers which is basically channel financing etc., your receivable days have gone down from 70 to 59 if I heard you correctly what is your target if listed bit by end of the year is there a further scope for rationalization in the debtor days?
- Thiyagarajan:** 50 days.
- Jasdeep Walia:** Right now you have a 59.
- Thiyagarajan:** Yes 59 2016 and it is 50.
- Jasdeep Walia:** Sir in light of the various changes that have happened in the way you do your business in terms of offering discount to dealers, increasing salaries for employees etc., what is your margin guidance for the year?
- K.U. Subbaiah:** We will be somewhere in the last year so maybe slightly lower than last year because there are some increase in expenses which we are investing for the future, so our estimate is more or less we will be closer to last year.
- Jasdeep Walia:** Finally, in this 1.4% discount that you have offered to dealers to motivate them to go for channel financing, is a one-time discount or is it a recurring thing?
- Thiyagarajan:** I onetime partly and also recurring.
- Jasdeep Walia:** What is the recurring part?
- Thiyagarajan:** It is a combined for both. It is for market development also depending on different market, market competition, whether it is recurring which may be revisited in different forms on a yearly basis and to encourage the credit discipline that is about one time till the DBT is introduced in the respective states they will get it.
- Jasdeep Walia:** Could you quantify the one-time part out of these 1.4% total discounts?
- K.U. Subbaiah:** It will be around 0.6% will be the one time.



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- Jasdeep Walia:** That is all from my side. Thanks for taking my questions.
- Moderator:** Thank you. We take the next question from the line of Aakash Manghani from BOI AXA Investment. Please go ahead.
- Aakash Manghani:** Thanks for taking my question. I do not know if you have covered this already, but what was the market growth for the tiller industry in Q1?
- K.U. Subbaiah:** In Q1 it was about 18% volume growth.
- Aakash Manghani:** 18% volume growth and for VST it was 8%, right?
- K.U. Subbaiah:** 8.5%. New entrants have sold about 850 nos as per our intelligence. In tiller what happens is we do not have a much organized data. So we really do not know whether all these tillers are stocks with the dealers or whether it has gone into the market. It could be a strategic sale where they have made it to the dealer and the stock may get stuck up with the dealer. So we really do not know whether it is right or wrong. If you see the organized players like VST and Campco are very steady and their sales to dealers and from dealers to the market.
- Aakash Manghani:** Kirloskar and Kubota would have come at what HP and at what price points?
- K.U. Subbaiah:** Kirloskar initially launched 16 HP, but now what we understand is they have also launched 12 HP. Kubota is a 13 HP or 14 HP tiller.
- Aakash Manghani:** Any idea what sort of numbers would they have done for Q1?
- K.U. Subbaiah:** Our intelligence says Kirloskar has done around 500 and Kubota about 150. We do not get the actual data.
- Aakash Manghani:** How is the competitive intensity from the Chinese players?
- K.U. Subbaiah:** As per our assessment year-on-year it is coming down.
- Aakash Manghani:** Any new players expected to come in FY2017 or FY2018 as per whatever you are hearing on the ground?
- K.U. Subbaiah:** We keep hearing some organized players may enter the market.
- Aakash Manghani:** What is your estimation for your annual numbers for tillers and tractors for you guys?



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K.U. Subbaiah: It will be at least better than last year. Tiller we would say about industry growth of about 7% to 8% and in tractors it could be slightly better than industry growth because we have launched the new models. So industry growth predicted is 7% to 8% in tractors and we would say we may be 1% or 2% more because we have launched the 27 HP tractor.

Aakash Manghani: But going forward into FY2018 how you will sort of or what steps will you take to arrest this market share loss or what measures would you be taking?

K.U. Subbaiah: Tillers actually we have not lost the market share. Last year there was a market share gains simply because the eastern part of the country the sales the market volumes came down and VST does not have a dominant market share. South we are very strong market share where the market volumes really boosted our overall market share in the country. So if you really look at it our market share was around 50% in 2014-15 and today we are at around 52%, which is quite reasonable. We will certainly try to improve on 52%.

Aakash Manghani: Okay I will take some more questions offline.

Moderator: Thank you. We take the next question from the line of Srinath Krishnan from Sundaram Mutual Fund. Please go ahead.

Srinath Krishnan: First question was on tillers you have a very strong brand in market share here incrementally what is the company doing or has done in the last two years so that you have stickiness with the farmers are increasing this like softer aspects what are you doing and second question is on tractor you are increasing your reach in tractor so next two, to three years time sold tractor dealers how many would they be compared to what is the count we are looking at?

K.U. Subbaiah: First was on tillers what the question Srinath you said was?

Srinath Krishnan: How are you increasing your stickiness to the farmers like softer aspects like service or what you have done into that?

K.U. Subbaiah: We are also increasing the number of dealers in case of tillers. Dealers who have not been v active and who have not been progressive are being replaced also we have started appointing parallel dealers to ensure that our esteem customers in any part of the country get good service. We are also having lot of road shows and free service campaigns in the remote areas so that our farmers are able to get the service done and get the spare parts The spare part reach is getting improved by appointment of key part dealers. We ensure that our



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customers to get the best service apart from that we also are in the process of launching an upgraded 130 DI tiller which we will launch soon. We have about 265 dealers today out of that 203 are tiller dealers and about 180 are tractor dealers of which about 60 dealers common to both tillers and tractors. We have retained only such dealers who have the ability to sell both tiller and tractors and have good infrastructure and separate manpower to handle the sales and service of tillers and separately handle the sales and service of tractor. We will add another 30 or 40 dealers this year so that our overall count of dealers across the country should be about 300 by March 2017.

- Srinath Krishnan:** 203 are our tiller dealers and then tractor would be?
- K.U. Subbaiah:** About 180.
- Srinath Krishnan:** Sir last question is you mentioned the tractor revenue is flat right compared to last year?
- K.U. Subbaiah:** Yes.
- Srinath Krishnan:** So realizations have increased from 260000 to 310000 so why is there a 20% increase in realization of tractors business?
- K.U. Subbaiah:** We sold 357 numbers of 27 HP tractors.
- R. Thiagarajan** No price increase, the realization difference on the corresponding period is due to various models mix.
- Srinath Krishnan:** You have increase price correction.
- K.U. Subbaiah:** Contribution as such has increased.
- R. Thiagarajan** our turnover is same 59.5 Crores for tractors against 2266 compared to the corresponding Nos to 2158. The price realization is very marginal because of product mix as we said earlier.
- Srinath Krishnan:** Thanks.
- Moderator:** Thank you. We take the next question from the line of N Puranik from Enam Securities. Please go ahead.



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- N Puranik:** Mr. Subbaiah this is Puranik here. I have a question for you about the DBT direct benefit transfer how does it impact the working capital cycle and also how does it impact the dealers ability to sell and collect the money since farmers will be getting this benefit directly to their account would you have a problem collecting the money from farmers is there a method to match delivery and collection how do you manage this?
- K.U. Subbaiah:** I will try to answer it Mr. Puranik if I am somewhere wrong Mr. Thiagarajan will come in and correct me. My understanding is that we will be organizing for retail funding to our farmers in the sense we collaborate with the banks who are interested to do retail financing for our farmers they will be available at the dealers and when the farmers come they have to make the entire payments to the dealers and collect the machine. It is like our gas the cylinder today we pay the entire money and later on the direct benefit transfer gets transfer to your account and in a similar way for tillers also it is a same thing the farmer has to upfront pay why taking a retail finance support and later on the government transfers the money to the farmer account.
- R. Thiagarajan** To add Mr. Subbaiah's answer for the first question, yes it is definitely better inflow and improve our working capital cycle. As you have mentioned earlier, the additional discount we are giving to enables the dealers to pay us the subsidy amount within the credit period. In the present system, there is no option for us or dealers to ask the subsidy amount from the farmers to pay. In DBT scheme Government itself mandate the farmers to pay to the supplier the full value of the supply. So the DBT scheme will definitely will improve the cash flow to the dealer end and our end. But the only issue will be so far the farmers are used to part of the supply value and not full value which may take some time for them to adjust.
- N Puranik:** Correct so will you make them pay you this money?
- R. Thiagarajan** to enable the farmers to pay the full supply value we are offering them retail funding by tying up with various banks and financial institutions.
- N Puranik:** This will be for a 15-day one-month kind of finance?
- R. Thiagarajan** No this retail funding for a period of three to five years repayment with an option to prepay without any charges
- N Puranik:** So it does not affect your working capital cycle or dealers collection?



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- R. Thiyagarajan** No
- N Puranik:** But do you think it is a sustainable process over a long period of time, because the dealer to pay the loan for that?
- R. Thiyagarajan** No, not dealer, but it is the farmers.
- N Puranik:** The farmer will take a loan.
- R. Thiyagarajan** Yes.
- N Puranik:** Additional loans he will take, anyway he is taking a loan he will take an additional loan?
- R. Thiyagarajan** we will encourage the farmer to avail loan full value of the supply, which the banker now ready to give because earlier they had hesitation because of subsidy portion with the DBT they are happy to extent loan for the full value at reduced margin.
- N Puranik:** Mr. Subbaiah I have another question. This is about the new product development lifecycle and so there are some home grown products and the externally developed products, what is most appropriate solution for new products development pipeline and typically how much time it takes from the time you decide to develop a product to credit to the market and some product design, product engineering, development and taking into the market and how much it cost if it is done internally and if it is done outside?
- K.U. Subbaiah:** I think I have to give an industry overview because VST have been there for about a year and I will not be able to talk much about VST but what is that we are looking at I can explain to you. Generally, in an OEM if a new product is conceived my thinking because I have been in a tier one supplier company and I have work with various OEMs when they were developing their products it is usually about a three years time by the products gets out from the time they conceive the product to when the product gets rolled out it takes about three years. But we are looking at similar like this for example if you want to launch the tractor by the year 2021; we have said that we have to start conceiving that today. It can be done I two ways if you have a full-fledged for product engineering department with a research ability with reliable engineering with reliable laboratories then entire thing can be done in-house. But for a company like VST where we have a product engineering department, but we do not have that entire capability to build a new product ourselves we have to look at it two ways one is either go for an engineering consulting firm which can



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support us or we have to find a technology partner. So essentially these are the two things which we have been looking at and this is how we will be developing a new product.

- N Puranik:** This costs significant amount to develop a product?
- K.U. Subbaiah:** If it is given to outside yes the cost will be higher but then you get a reliable product because they have many years of experience in conceiving the product.
- N Puranik:** Good thanks a lot have a great time thank you.
- Moderator:** Thank you. We take the next question from the line of Mayur Milak from Anand Rathi. Please go ahead.
- Mayur Milak:** Sir I thought you mentioned that had these onetime adjustments not been around your EBITDA would have reflected at 18% is that right.
- K.U. Subbaiah:** Yes.
- Mayur Milak:** So of this also you mentioned that some of these will be recurring in nature and some of these are one time so could you just broadly give us an idea of how much of this was typically one time taking the staff as well as the overhead expenses today?
- K.U. Subbaiah:** The onetime is only on the personal cost about 3 Crores which is on the past liability funding the gratuity and as far as the other overheads mainly sales overheads is concerned it is mostly on the recurrence, it is only the incentive is to bring the subsidy the credit discipline this will be marginal which is around 60 to 70 lakhs it is not a big amount.
- Mayur Milak:** No so you mentioned onetime gratuity was around 1.72% of the hit.
- K.U. Subbaiah:** It is 3 Crores to the 1.7% for the Q1 topline that is only one time, rest of that it is all recurring or as per the plan for the current as well as the future market development most of its expenses if we look at corresponding quarter to this quarter increase is on account of that so if you compare with the quarter you will see a high increase because as I said most of those expenses earlier were booked in the Q2 of 2015-2016 but we see we have booked in Q1 itself and that is why if you compare quarter-to-quarter you see quarter-to-quarter same quarter last year to the quarter of this year you will see a tremendous increase but when you come to Q2 all these things will get harmonized.



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- Mayur Milak:** And this wage settlement was also these arrears right?
- K.U. Subbaiah:** That is one time. Those arrears are definitely onetime.
- Mayur Milak:** That will be also. Thank you.
- Moderator:** Next question from the line of Sudhi Kedia from Ask Investment. Please go ahead.
- Sudhi Kedia:** Sir just one clarification if you can explain the DBT process once I think I was slightly not able to understand it?
- Thiyagarajan:** DBT is similar to what is LPG, direct benefit transfer, so the subsidy so far the government was though it has accounted by the beneficiary the farmer but they had mandating that supplier should not be insist for the full payment less the subsidy they have to collect from the farmer and supply the equipments and machinery and they need to file compliance through the operating agency which is the Department of Agriculture each state and on their verification and they will release this subsidy payment on behalf of the beneficiary to the supplier or to the manufacturer. Now the central government is seeing to bring discipline and also to plug in all the loopholes and leakages they want to transfer entire subsidy to the direct to the customer the beneficiary account, so that there is no pilferage or leakages in the system to check.
- Sudhi Kedia:** What was the working capital, which was getting stuck because of the subsidy, get transferred directly to the manufacturer?
- K.U. Subbaiah:** The entire subsidy amount which needs to come from the Government.
- Sudhi Kedia:** How many months they were taking to pay?
- Thiyagarajan:** It is anywhere between three months to six months, nine months depending up on which state on early their financial situation so it will vary.
- Sudhi Kedia:** So as now how many days have started this DBT process or how much time they will take any idea about that?
- Thiyagarajan:** As of this year because it is coming mandatory as per the central government from April 2017 they have to go mandatorily to these services also on the DBT but somehow the sates they wanted the pilot take at this year itself which they have indicated so far the two states



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which is Tamil Nadu and Orissa but already for long years its happening in Gujarat and Maharashtra.

Sudhi Kedia: From April 1, 2017 all the state mandatorily will book to DBT that is what you are saying?

Thiyagarajan: Yes.

Sudhi Kedia: This will release also working capital for us on the supplier?

Thiyagarajan: Pressure on the working capital will get reduced.

Sudhi Kedia: You said that the insurance funding for the farmer will be through the loan?

Thiyagarajan: Yes.

Sudhi Kedia: Thank you.

Moderator: Thank you. That was the last question I now hand the conference over to Mr. Annamalai Jayaraj for his closing comments.

Annamalai Jayaraj: We thank all the participants. We thank VST Tillers and Tractors Management for sparing time for the call and also providing us the opportunity to host the call. Have a good day.

K.U. Subbaiah: Thank you all.

Moderator: Thank you. On behalf of Batlivala & Karani that concludes this conference call. Thank you for joining you and us may now disconnect your lines.

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